MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BME1014 – INTRODUCTORY MICROECONOMICS

(All sections / Groups)

12 OCTOBER 2015
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 4 questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(A) Describe the concept of production possibilities frontier (PPF) using an appropriate diagram. Give some real-world applications of the production possibilities concept.

(10 marks)

(B) Market equilibrium is a situation that exists when quantity demanded equals quantity supplied. At equilibrium, there is no tendency for price to change unless there are shortages or surpluses in market. Briefly explain the effects of shortages and surpluses on the market price.

(9 marks)

(C) What does producer and consumer surplus measure? How is it calculated?

(6 marks)

Total marks: (25 marks)

QUESTION 2

(A) Explain the principle of diminishing marginal utility using an appropriate example and diagram.

(6 marks)

(B) Explain the relationship between marginal cost, average total cost and average variable cost using an appropriate example and diagram.

(9 marks)

(C) Firms search for the cost-minimizing combination of inputs that will allow them to produce a given level of output. Explain this situation using isoquants and isocost lines.

(10 marks)

Total marks: (25 marks)

QUESTION 3

(A) Briefly explain the **two** approaches that are being used by firms to determine the profit-maximizing level of output.

(7 marks)

Continued.....

(B) The total product and costs as shown in the following table are for a firm in a perfect competitive industry. Based on the information provided, complete the blank columns.

(1) Total product	(2) Total Variable Cost	(3) Total Cost	(4) Average Fixed Cost	(5) Average Variable Cost	(6) Average Total Cost	(7) Marginal Cost
0	RM 0	RM 40	RM____	RM____	RM____	
1	55	____	____	____	____	RM____
2	75	____	____	____	____	____
3	90	____	____	____	____	____
4	110	____	____	____	____	____
5	135	____	____	____	____	____
6	170	____	____	____	____	____
7	220	____	____	____	____	____
8	290	____	____	____	____	____

(10 marks)

(i) Suppose the market price for the product is RM50, what is the profit-maximizing level of output? (4 marks)

(ii) Suppose the market price is RM25, will this firm produce in the short run? (4 marks)

Total marks: (25 marks)

QUESTION 4

(A) The following case is based on game theory, the approach used to analyze competition among firms in an oligopolistic industry. Consider a game with two players who cannot communicate, and in which each player is asked a question. The players can answer the question honestly or lie. If both answer honestly, each receives \$100. If one player answers honestly and the other lies, the liar receives \$500 and the honest player gets nothing. If both lie, then each receives \$50.

(i) Describe the strategies and payoffs of this game. (4 marks)

(ii) Construct the payoff matrix for the game that two players must play. (8 marks)

(iii) Determine the Nash equilibrium of this game. (4 marks)

(B) The marginal revenue product of labor curve is the demand curve for labor. Explain this statement using an appropriate diagram. (9 marks)

Total marks: (25 marks)

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